

2008 California Volunteer Manual

Introduction Section

STATE AND FEDERAL DIFFERENCES

California does not tax:

- Interest income from savings bonds, U.S. Treasury bills, or any other bonds of the U.S. and U.S. territories.
- State income tax refunds.
- Unemployment compensation and paid family medical leave.
- Social security benefits.
- Tier 1 and tier 2 railroad retirement benefits.
- California lottery winnings.

California does tax:

- Foreign earned income.
- Interest income from bonds issued by a state other than California.
- Interest income from obligations of the District of Columbia issued after December 27, 1973.
- Interest income from municipal bonds issued by a county, city, town, or other local government unit in a state other than California.
- Foreign social security income.

California law differs from federal law with regard to certain itemized deductions.

California does not have the earned income credit.

California disallows some of the federal adjustments to gross income.

California allows contributions to many different funds.

California tax credits include:

- Nonrefundable Renter's.
- Child and Dependent Care Expenses.
- Joint Custody Head of Household.
- Dependent Parent.
- Senior Head of Household.
- Child Adoption.
- As well as many other special credits. Refer to the Form 540 section of this manual for additional credits.

TaxWise Tip:

Many of these credits and adjustments will not automatically enter on the state return. If your client qualifies for any of the above credits, or requires an adjustment to federal AGI, you must double check the credit or adjustment amount on the state form.